



STATE BOARD OF LAND COMMISSIONERS

Dirk Kempthorne, Governor and President of the Board

Pete T. Cenarrusa, Secretary of State

Alan G. Lance, Attorney General

J. D. Williams, State Controller

Marilyn Howard, Superintendent of Public Instruction

Winston A Wiggins, Secretary to the Board

Final Minutes Regular Land Board Meeting July 10, 2001

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, July 10, 2001 in Boise, Idaho. The Honorable Dirk Kempthorne presided. The following members were present:

Honorable Secretary of State Pete T. Cenarrusa
Honorable Attorney General Alan G. Lance
Honorable State Controller J. D. Williams
Honorable Superintendent of Public Instruction Marilyn Howard

Secretary to the Board Winston A Wiggins

- **Resolution Presentation to Milt Williams, Public Information Officer, Department of Lands by the State Board of Land Commissioners**

Governor Kempthorne opened the meeting with a presentation to Mr. Milt Williams, recently retired Public Information Officer for the Idaho Department of Lands. On behalf of the members of the Land Board, Governor Kempthorne thanked Mr. Williams for his twenty-eight years of service to the State of Idaho.

- **CONSENT AGENDA**

Acting Director Wiggins provided background information on the Consent Agenda items.

A motion was made by Attorney General Lance to approve the Consent Agenda in its entirety. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.

1. Director's Report - approved

- A. Interest Rate Report – May – June 2001
- B. Bureau of Minerals Official Transactions – May 2001
- C. Timber Sale Official Transactions – April 21, 2001 through June 20, 2001
- D. Bureau of Real Estate, Land Sale Section, Official Transactions – April – May 2001
- E. Bureau of Real Estate, Easement Section, Official Transactions – April – May 2001
- F. Bureau of Range Management and Surface Leasing Official Transactions – May – June 2001
- G. Timber Sale Activity Report – May – June 2001
- H. Department of Lands Financial Summary
- I. Tussock Moth

2. Timber Sales – Staffed by Bob Helmer, Acting Chief, Bureau of Forest Management – approved

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|--------------|------------------|-----------|
| A. CR-4-0698 | Orofino Point | 2,615 MBF |
| B. CR-4-0747 | Deer Creek Rehab | 2,815 MBF |

3. Application for Qualified Bidders List, Timber Sales – Staffed by Bob Helmer, Acting Chief, Bureau of Forest Management – **See Board Actions Below**

- A. Bob Ross Trucking, 1375 Sagle Road, Post Office Box 1025, Sagle, ID 83860
- B. JC Helicopter Services, LLC, Post Office Box 1401, Priest River, ID 83856
- C. Bell Timber Company, Post Office Box 1998, Sandpoint, ID 83864

DEPARTMENT RECOMMENDATION: That the above applications for addition to the qualified bidders list be approved.

BOARD ACTION: Approved.

- D. Stan Runnels, Prolog Development, Inc.

DEPARTMENT RECOMMENDATION: That the above application (Runnels) for qualified bidder status be denied.

BOARD ACTION: The board moved to accept the department's recommendation.

4. Request by the Department and Tamarack Mills, LLC, to Modify the Hidden-Howell Timber Sale, TS-6-3197 – Staffed by Bob Helmer, Acting Chief, Bureau of Forest Management – **approved**

DEPARTMENT RECOMMENDATION: That the modification be approved.

BOARD ACTION: Approved.

5. Forest Practices Act Rate Increase – Staffed by Craig Foss, Acting Chief, Bureau of Forestry Assistance – **approved**

DEPARTMENT RECOMMENDATION: Direct the department to increase the hazard reduction money or bond withholding from two percent (2%) to three percent (3%).

BOARD ACTION: Approved.

6. Cottage Site Appeal – Stanley and Georgia Miller – Staffed by Alvin Carr, Leasing Specialist, Bureau of Range Management and Surface Leasing – **approved**

DEPARTMENT RECOMMENDATION: Direct the department to use the appraised value of \$187,000 for the valuation dates of January 1, 1998 and January 1, 1999 in determining the January 1, 2000 and January 1, 2001 annual rental payment.

BOARD ACTION: Approved.

7. Request for Final Approval of the Proposed Exchange between the State of Idaho and Land Exchange, Inc. (Waterloo) – Staffed by Perry Whittaker, Chief, Bureau of Real Estate – **approved**

DEPARTMENT RECOMMENDATION: Direct the department to complete the exchange involving the Waterloo property and the state cottage site endowment property.

BOARD ACTION: Approved.

8. **Request for Approval of a Boundary Line Agreement between the State of Idaho Department of Lands and Mr. and Mrs. Rod Halversen** – *Staffed by Perry Whittaker, Chief, Bureau of Real Estate* – **approved**

DEPARTMENT RECOMMENDATION: Direct department staff to enter into a Boundary Line Agreement with the Halvorsens along the surveyed fence line.

BOARD ACTION: Approved.

9. **Request for Approval of a Disclaimer of Interest to Eastern Western Corporation on 203.85 Acres of Accretion Land Adjacent to the Payette and Snake Rivers in Payette County** – *Staffed by Perry Whittaker, Chief, Bureau of Real Estate* – **approved**

DEPARTMENT RECOMMENDATION: It is recommended that a disclaimer of interest be issued for two (2) parcels of accretion land totaling 203.85 acres of the former beds of the Payette and Snake Rivers. The disclaimer of interest will be issued contingent upon the applicant granting to the State of Idaho a disclaimer of interest for 7.68 acres of current riverbed. Also, the applicant will grant to the City of Payette a 25.00 foot wide permanent greenbelt pedestrian easement for approximately 2½ miles along the ordinary high water mark of the current riverbed adjacent to the applicant's ownership. The recommended fee is \$600.00.

DISCUSSION: Dr. Howard asked for additional information. Acting Director Wiggins stated that the reason for this disclaimer is the same as it is on other smaller disclaimers and that reason is that the disclaimer reflects a riverbed shift over a period of time. The department made a provision in the disclaimer that the new owners would preserve a public access along the riverbed. The City of Payette is on the other side of the river. Another point is that while the acreage is not balanced, part of the disclaimer also grants ownership to the state of what had previously been private ownership – again, because the river has shifted and is now occupying what was previously private land.

Assistant Director Biladeau commented that portions of the 200 acres are being farmed. The rest is pastureland. The acreage is at the confluence of two major rivers and is fairly flat. Under that circumstance, a small shift equates to a large number of acres. The department reviewed the disclaimer very closely and it was determined to be above the high point.

BOARD ACTION: Approved.

10. **Minutes** – **approved**

- A. Regular Land Board Meeting – May 8, 2001
- B. Special Land Board Meeting – May 29, 2001

• **REGULAR AGENDA**

11. **Endowment Fund Investment Board (EFIB) Manager's Report** – *Presented by Charles G. Saums, Manager of Investments*

Mr. Saums stated that normally at this meeting he would present the next fiscal year's distribution recommendation for the beneficiaries. However, the EFIB has had to take a strong look at the spending policy. Money flows from the Department of Lands have changed. While this change does not necessarily affect the amount of moneys being paid to the beneficiaries this year or next year, it does affect the spending policy over the long term. Should these decreases stay in place, the whole spending policy has to be revised since the EFIB will not be able to fund up the earnings reserve, as had been anticipated.

The EFIB is working with QInsight on a couple of simulations to determine where the fund will be able to go. The short-term impact is minimal. The long-term effects are dramatic. The dramatic part is taking \$20 million over a thirty-year period and then compounding that figure. The \$20 million would have gone into building the corpus of the earnings reserve. Initially it is a relatively small amount but it becomes rather dramatic over a long period of time. This is what has really affected the spending policy as it is constructed.

Acting Director Wiggins stated that the department is doing its best to provide reasonable figures. When "reasonable figures" are discussed, it is meant to be essentially short-term figures, such as the next five years or so. The original timber inflow estimates completed by QInsight essentially projected a straight-line increase from year to year. What has happened here is the same as what has happened in the equity market. How long that trend lasts is a matter of conjecture.

Acting Director Wiggins stated that he is concerned about the next four to five years. The reason for his concern is that while timber revenues were down this year, down about \$12-\$13 million from a year ago, the value that was bid on timber during the last twelve months is down significantly from a year ago. What that portends is future revenues because when auctions are held today, the actual harvest, when the money is received, is spread out over the next two to three years. A reduction in bid rate indicates, at least from state timber sales, what is in the pipeline sold and that constitutes the future cash flow. That flow will last for at least the next two to three years.

Acting Director Wiggins commented that he has noted some upswing in bid prices over the last month. It is unknown how long that upswing will last. If it were to continue for the next twelve months, it is possible there would be a recovery over the next three years. But right now the market dynamics in the timber-lumber industry are not good. There has been a reduction in competition in the southern part of the state and, for a variety of reasons, people in the northern part of the state are under stress. That stress is reflected in the bid prices.

Controller Williams commented that Acting Director Wiggins believes that the numbers projected through the end of this calendar year are solid because there are contracts that are coming in during this period of time. Those contracts are into harvest right now. Acting Director Wiggins stated that the numbers should be reasonably solid because the timing of actual harvest is market driven and an estimate can be made. July, August and September are typically very heavy harvest months, and into October, depending on weather. If that trend continues this year, as it has in the past, a significant amount of revenue could come in. But if for some reason the purchasers were compelled to curtail their harvest during that period, then we would not be able to say. Projections given to QInsight are annual projects and were not broken down by month. The projection given to QInsight for Fiscal Year 2001 was pretty close to the ultimate figure.

Dr. Howard commented that the public school budget in that area is being flat lined because increased revenues are not anticipated. Mr. Saums stated that June was not a good month for the fund. The market did recover from March but the fund came in with a \$60 million loss and that loss will be reflected in the market-to-market for establishing this year's levels for the market value.

Mr. Saums stated that the consultant's report will be available in September.

Governor Kempthorne encouraged Acting Director Wiggins to always give the board realistic figures. He asked that the board be given accurate figures to the greatest extent possible.

Governor Kempthorne asked Controller Williams to work with Mr. Saums between now and the next board meeting to develop a consistent format for reporting information. Controller Williams stated he would be happy to assist. Governor Kempthorne asked Controller Williams to identify the board's expectations, identify all players and what the "to do" list is.

The EFIB Manager's Report is provided monthly for the board's information. No action was taken on this agenda item.

12. Citizens' Evaluation Committee Update – Presented by Don Curtis, Chairman

Governor Kempthorne thanked the members of the Citizens' Evaluation Committee for their work. Mr. Don Curtis, Chairman of the Committee, addressed the board.

Mr. Curtis outlined recommendations from the committee.

(1) Committee Recommendation #1

The Land Board should adopt a formal Land Trust Investment Policy that includes, among other standard items, the following three areas:

- Statement of Investment Objectives
- Annual Investment Plan
- Commercial Real Estate Policies

(2) Committee Recommendation #2

Implement a standard/common 3-page reporting format (previously distributed as a working document to the Department of Lands and Land Board members and their staff) for review of lands/funds investments and performance. Implement/utilize the sample report format provided, initially to begin to get experience/understanding with the reporting tool and its underlying assumptions and, then iterate/improve on this management tool as needed in the future. (Note: a tutorial in this tool and its effective use may be well advised for Board Members and their deputies.) Appendix D is the proposed reporting format with numbers deleted.

(3) Committee Recommendation #3

Permanent Department of Lands Director

The Land Board should immediately establish a formal process for selecting a permanent director for the Department of Lands with the goal of having that person in place within 90 days.

(4) Committee Recommendation #4

Adopt specific implementation actions for:

- Recommendation 1 - Formal Land Trust Investment Policy
- Recommendation 2 - Lands/Funds Investment Reporting Format

(5) Committee Recommendation #5

At Land Board level, Department of Lands level and all levels below, establish a clear paradigm shift toward "Endowment Investment." These two words must color all future analysis, decisions and actions.

(6) Committee Recommendation #6

Establish an "Endowment Real Estate Asset Manager" (e.g., Assistant Director for Real Estate) position within the Department of Lands.

(7) Committee Recommendation #7

Land Board establish the role/position of "Executive Director/Secretary to Land Board"

(8) Committee Recommendation #8

Research the Utah (and other states) Land Board organization model(s) and recommend/decide on best overall long term Idaho Model

(9) Committee Recommendation #9

Current Land Board organizational effectiveness could be improved by implementation of specific practices/procedures.

(10) Committee Recommendation #10

Although committee members admittedly have not done an in-depth review of the Land Bank policies, processes and procedures, the committee believes that a review may be in order at this time due to the importance of overall effective portfolio management.

Governor Kempthorne thanked Mr. Curtis for his diligence in working on the Committee. He commented that due to changes in the Admissions Act, the Department of Lands now has to combine natural resource-based management with financial asset management. With that, Governor Kempthorne opened the discussion to questions from the board.

Attorney General Lance asked if Committee recommendations were made by consensus or by majority-minority views of the issues. Mr. Curtis responded that the report was by consensus. However, Mr. Curtis stated the only item that was not by consensus pertained to the Idaho Open Meeting Law. Mr. Curtis suggested that the Idaho Open Meeting Law should be broadened to allow exceptions. An exception could be such as Land Board level discussions pertaining to strategy or organizational development.

Attorney General Lance asked Mr. Curtis how he would approach a change to the Idaho Open Meeting Law. Mr. Curtis stated that his background is private industry. He feels some things need to be discussed outside of the public forum. He suggested that the Land Board staff deputies meet to discuss what could legally be done in executive session without violating the spirit or the letter of the law. Mr. Curtis wondered whether writers of the Idaho Open Meeting Law envisioned the kinds of challenges that the Land Board faces.

Mr. Bob Maynard, Committee member, addressed the board to give an opposite view. Mr. Maynard stated he has been involved with public-oriented investment groups for many years and has had to abide by the Open Meeting Law. He feels now is perhaps not the right time to address this issue.

Secretary of State Cenarrusa commented that as long as the board does not make a decision, its members should be allowed to meet to discuss issues. Should three board members attend the same function, they are not allowed to talk about any Land Board matter. He feels the board should have some latitude.

Controller Williams commented that the Committee has given the board a great forum to start working from. He expressed his appreciation to the Committee for their many hours of volunteer work.

Dr. Howard commented that two portions of the Committee's report struck her. One was the Committee's statement regarding how important it is that the state as a whole recognize the position and purpose of state lands. She also believes that adding an Executive Director/Secretary position will help the director with communication. Dr. Howard believes that the recognition of the complexity of the organization and how the complexity has increased in recent times is something that needed to happen. These changes should help both internally and externally to be able to address all of the people who suddenly are caring in more ways than they did in the past about how this operates and how they are impacted.

Mr. Curtis stated that the real estate asset investment manager recommended by the Committee could be a valuable assistance in managing all of the aspects of things that are to come in the future. This position would increase the director's ability to communicate effectively to all of the Department of Lands employees what is happening and to help them all navigate through a period of change.

Mr. Curtis stated there would be two different positions. The Real Estate Investment Manager would report to the director. The Executive Director/Secretary position would report to the Land Board.

Governor Kempthorne commented he hopes that a good share of the board's time at future Land Board meetings is devoted to management of the portfolio.

Mr. John Cowden, Committee member, commended Mr. Curtis for his leadership as Chairman of the Committee. He stated that Mr. Curtis has the support of the committee on the recommendations presented and that the members stand ready to assist to the extent they are needed.

Governor Kempthorne stated that the Committee has fulfilled its mission. He asked, however, that the Committee not dissolve at this time and that they remain available as a resource to the board. Mr. Curtis responded that the Committee members will be available to assist the board.

No action was taken on this agenda item.

ACTION TAKEN ON ITEMS NOT ON THE AGENDA

- A motion was made by Attorney General Lance to appoint Winston Wiggins as the permanent director for the Department of Lands. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.
- A motion was made by Attorney General Lance that the Land Board direct the Idaho Department of Lands to provide to the board within four (4) months a proposed land trust investment policy for all endowment lands assets. The policy should include, among other things, a statement of investment objectives and the submission of an annual investment plan beginning with a plan for Fiscal Year 2003. Further, the director shall report at each Land Board meeting, prior to submission of the proposed land trust investment policy, the progress that is being made toward completion of the policy. Controller Williams seconded the motion. The motion carried on a vote of 5-0.

• INFORMATION AGENDA

Director Wiggins briefed the Land Board on the Information Agenda items. No Land Board action is required on the Information Agenda.

13. Land Exchange Status Report for Last Fiscal Year

14. Request for Proposal – Steamboat Gulch Tubing Hill

15. Cancellation of Grazing Lease G-7222, Western Watersheds Project

- A motion was made by Attorney General Lance to resolve into Executive Session at 10:55 a.m. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.

• EXECUTIVE SESSION

A. To Consider Personnel Matters, Idaho Code § 67-2345(1)(b) – Presented by Winston Wiggins, Director

- A motion was made by Attorney General Lance to resolve back into Regular Session at 12:56 p.m. Controller Williams seconded the motion. The motion carried on a vote of 5-0. No actions were taken by the board during the Executive Session.

ACTION TAKEN ON ITEM NOT ON THE AGENDA

- A motion was made by Attorney General Lance to go forward with a reorganization of the Department of Lands, including the filling of two operations chiefs positions, one to be located in Coeur d'Alene and one to be located in Boise, each supervising field offices divided by approximately the Clearwater River. The positions would be exempt Assistant Director or Division Chief level positions. Controller Williams seconded the motion. The motion carried on a vote of 5-0.

There being no further business to come before the board, the meeting adjourned at 12:56 p.m.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/

President, State Board of Land Commissioners and
Governor of the State of Idaho

/s/

Pete T. Cenarrusa
Secretary of State

/s/

Winston A Wiggins
Director